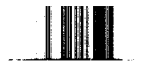
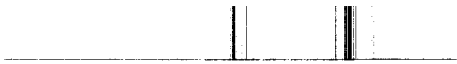


tions, according to CBO, would increase revenues by \$0.3 billion in 1988 and \$1.7 billion over the 1988-1992 period, which is \$0.6 billion less than the Administration's estimate for 1988 through 1992.^{3/} These estimates are measures of the unified budget effects of the proposals. Excise tax increases are associated with much smaller income tax reductions. These reductions produce revenue increases in the unified budget that are somewhat smaller than the excise tax increases.

About half of the proposed revenues from new and increased fees proposed in the President's budget would result from adjusting and extending the Customs Service user fee recently enacted in the Omnibus Budget Reconciliation Act of 1986. The proposal would ensure that revenues fully cover the commercial operating costs of the Customs Service. The Administration also proposes extending the fee beyond its present expiration date of September 30, 1989. CBO estimates that the proposal would increase unified budget revenues by about \$40 million in 1988 and by about \$1.3 billion over the 1987-1992 period. The fee increase itself would raise about \$1.7 billion for the Customs Service over the six-year period.

Other fees and user charges in the President's budget program would raise \$0.2 billion in revenues in 1988 and \$1.3 billion over the 1987-1992 period. Over half of these--including fees for nuclear facility regulation, federal emergency management assistance, and the issuance of fishing licenses, and the IRS user charges--are similar to proposals in last year's budget.

3. Highway Trust Fund excise taxes are scheduled to expire after September 30, 1988. Both CBO and the Administration revenue projections assume extension of these taxes at current tax rates through 1992.



CHAPTER IV

THE ADMINISTRATION'S DEFENSE BUDGET

The Administration's defense budget for fiscal year 1988 calls for increases in budget authority above the CBO baseline projections of \$9 billion in 1988 and \$110 billion over the 1988-1992 period. The higher appropriations sought by the Administration would raise outlays above CBO's baseline projections by \$8 billion in 1988 and by \$72 billion from 1988 through 1992.

In contrast with its baseline projections, CBO estimates outlays assuming the President's proposals are enacted. Last year, these reestimates showed outlays much greater than the Administration estimated. This year, however, the CBO and the Administration estimates of outlays resulting from the President's request are approximately the same.

The Administration's 1988 budget authority proposals have a different mix of programs from those the Congress approved for 1987 and CBO projected into 1988. Proposed procurement appropriations are lower--in both relative and absolute terms--while those for operation and maintenance and research and development are larger. This proposed shift in the defense budget's composition raises outlays because the increases are planned in programs that result in relatively immediate outlays, while the decrease in procurement will not lower outlays until later.

DEFENSE FUNDING LEVELS

The Administration's budget request of \$312 billion in budget authority for the national defense function for 1988 represents an increase of \$22 billion over 1987 appropriations and \$9 billion over the CBO baseline. After adjusting for expected inflation, the Administration request translates into 3 percent real growth over 1987. Over the five-year period, 1988-1992, the Administration's budget would produce an annual average of about 2 percent real growth using CBO's projected inflation rates (see Box IV-1).

BOX IV-1
INFLATION AND REAL GROWTH IN THE DEFENSE BUDGET

The annual budget request for the Department of Defense (DoD) includes funds to cover anticipated inflation. The request is for new budget authority, which represents the right to enter into contracts to buy goods and services. Since these contracts, in particular those for major weapons such as ships, tanks, and aircraft, can extend over several years, budget authority to fund the estimated costs of inflation must also extend over the life of each contract. Thus, the amount of the DoD budget request that represents future price changes is substantial.

Both CBO and the Administration base their estimates for price changes affecting the defense budget on their overall economic forecasts. The following table shows CBO and Administration estimates for all defense purchases less compensation. The differences are very close to the differences between CBO and Administration estimates of the GNP deflator (see Chapter II).

**Comparison of CBO and Administration Inflation
 Assumptions for Defense Purchases
 (By fiscal year, in percent change,
 purchase deflator for outlays)**

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
CBO	2.5	3.5	4.1	4.2	4.2	4.2
Administration	2.2	3.8	3.7	3.4	3.0	2.5

Pay raises pose a unique problem in that they are treated as administered price changes. Real growth in military personnel is determined by increases in strengths; in the short term, pay raises do not affect strength and quality appreciably and are a suitable proxy for price changes. In the long run, differences in pay between federal and private employees can make a difference in measuring real growth because quantity and quality have time to change.

Most interest in aggregate real growth focuses on budget authority and requires use of budget authority deflators rather than outlay deflators--the latter being more relevant for comparisons with other price indexes. Budget authority deflators are a weighted average of outlay deflators reflecting price changes over the period when funds are spent. Based on the Administration's pay assumptions and the forecast of the CBO for other defense purchases, real growth in budget authority will average about 2 percent from 1988 through 1992.

This year the Department of Defense (DoD) budget also contains a request for 1989 as required by law (Public Law 99-145). Consequently, there is more detail available for the Administration's longer-term plans (see Table IV-1). Overall, however, the 1989 request--\$332 billion--exceeds the CBO baseline by \$16 billion and the Administration's 1988 request by \$20 billion. Over the period of 1988 through 1992, the real growth in budget authority would continue the trend of annual real increases since 1980 (with the exception of 1986 and 1987 when the defense budget declined about 2 percent in real terms each year). The real decline in 1986 came after a 9 percent average annual real growth in the previous five years.

The request for 1988 also continues a slight shift in the composition of budget authority. From 1980 through 1985, the defense budget became more heavily weighted toward spending for investment, with the procurement accounts growing the most--from about 25 percent in 1980 to almost 33 percent in 1985. But, in 1986 through 1987, real procurement funding fell by 12 percent. The 1988 request calls for real decline of about 5 percent in 1988 before resuming growth averaging about 6 percent over the next four years. Operation and maintenance (O&M) and research, development, test, and evaluation (RDT&E) would receive by far the largest increases. The request for O&M calls for real growth of 4 percent, or about \$3 billion, while the RDT&E request calls for real growth of 17 percent, or about \$6 billion. Like procurement, O&M would experience real growth over the five-year period, but RDT&E would see real decline after 1988.

ESTIMATES FOR DEFENSE OUTLAYS

CBO and Administration estimates for outlays are much closer than they were a year ago. At that time, the Administration doubted the relevance of the historical spending patterns that it had previously used to estimate future outlays and thus abandoned them. CBO, however, continued to use these patterns. Last year, according to CBO estimates, outlays were \$11 billion to \$18 billion higher than those estimated by the Administration in each year of the five years covered by the 1987 budget. This year, the estimates for the 1988 budget differ by no more than \$1.1 billion per year because the Administration has resumed its use of historical spending or outlay rates in making its estimates. Note that in reestimating the President's defense request, CBO assumes almost the same budget authority as the request--there are only relatively small differences related to offsetting receipts, pay raises, and G.I. Bill funding. (See Appendix B for more discussion of outlay reestimates.)

Outlays under the Administration's budget, as reestimated by CBO, would increase \$19 billion in 1988 over the level estimated by CBO for 1987. Compared with 1987 outlays--estimated to be about \$279.6 billion--

TABLE IV-1. MAJOR SPENDING PROPOSED IN ADMINISTRATION'S 1988 BUDGET FOR FUNCTION 050: NATIONAL DEFENSE (By fiscal year, in billions of dollars)

Account	1988	1989	1990	1991	1992	Five-Year Totals
Budget Authority						
Military Personnel	76.3	76.6	78.3	78.9	79.3	389.5
Operation and Maintenance	86.1	90.0	96.5	101.7	106.7	481.0
Procurement	84.1	94.6	105.6	115.6	123.3	523.2
RDT&E ^a	43.7	44.2	39.6	39.7	42.3	209.4
Military Construction	6.6	6.9	7.5	7.7	8.5	37.1
Other-DoD	<u>6.3</u>	<u>10.5</u>	<u>15.9</u>	<u>20.8</u>	<u>25.8</u>	<u>79.3</u>
Subtotal	303.1	322.9	343.4	364.3	385.8	1,719.6
Other Defense	<u>8.7</u>	<u>9.1</u>	<u>9.6</u>	<u>10.1</u>	<u>10.4</u>	<u>47.8</u>
Administration's 1988 Budget as Reestimated by CBO	311.8	332.0	353.0	374.4	396.2	1,767.3
Outlays						
Military Personnel	75.5	76.0	77.6	78.2	78.6	385.9
Operation and Maintenance	82.7	87.2	93.5	98.8	103.8	466.0
Procurement	82.7	84.1	90.1	98.3	106.2	461.3
RDT&E ^a	38.3	41.4	39.7	38.3	39.3	197.0
Military Construction	5.2	5.8	6.4	6.8	7.3	31.5
Other-DoD	<u>5.5</u>	<u>9.7</u>	<u>14.8</u>	<u>19.8</u>	<u>24.9</u>	<u>74.7</u>
Subtotal	289.9	304.1	322.1	340.3	360.1	1,616.5
Other Defense	<u>8.3</u>	<u>8.5</u>	<u>9.0</u>	<u>9.5</u>	<u>9.9</u>	<u>45.2</u>
Administration's 1988 Budget as Reestimated by CBO	298.3	312.6	331.1	349.8	369.9	1,661.7

SOURCE: Congressional Budget Office.

a. Research, development, test, and evaluation.

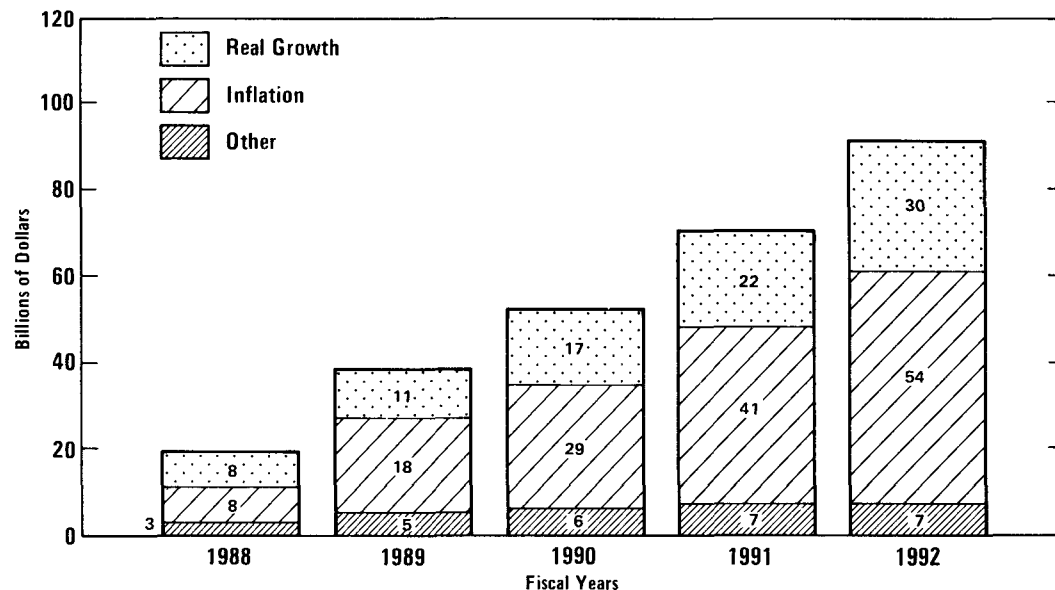
outlays would grow by about \$3 billion as the result of past increases in budget authority (and assuming that budget authority in 1988 was held at the 1987 level). Covering the costs of inflation would add about \$8 billion. The final \$8 billion of outlay growth estimated for 1988 would stem from the real growth in budget authority. Sources of outlay growth are shown in Figure IV-1.

The future pattern of outlay growth under the Administration's budget proposals shows that the largest growth is attributable to meeting the costs of inflation. Over the five years, outlays would grow by \$264 billion over the 1987 level. About 57 percent of the increase, or about \$150 billion, would result from expected price growth. Another 34 percent, or \$87 billion, would represent real growth in budget authority and the remaining 9 percent, or \$28 billion, would occur if budget authority remained frozen at the 1987 level.

Table IV-2 shows major spending changes proposed in the Administration's budget and helps to illustrate the different spending patterns for

Figure IV-1.

Sources of Outlay Growth in Defense Outlays, Fiscal Years 1987-1992



SOURCE: Congressional Budget Office.

TABLE IV-2. MAJOR SPENDING CHANGES PROPOSED IN ADMINISTRATION'S 1988 BUDGET FOR FUNCTION 050: NATIONAL DEFENSE (By fiscal year, in billions of dollars)

Changes	1988	1989	1990	1991	1992	Five-Year Totals
Budget Authority						
CBO Baseline	302.7	316.3	330.6	345.8	361.7	1,657.1
Proposed Changes						
Military personnel	1.3	1.7	3.3	3.9	4.1	14.3
Operation & maintenance	3.3	4.8	8.6	11.4	13.8	41.9
Procurement	-4.7	2.3	9.5	15.4	19.1	41.6
RDT&E ^{a/}	6.3	5.4	-0.8	-2.3	-1.4	7.2
Military construction	1.4	1.5	1.9	1.9	2.5	9.1
Other-DoD	1.1	-0.4	-0.8	-2.4	-4.1	-6.5
Subtotal	8.7	15.3	21.8	27.9	33.9	107.6
Other Defense	0.4	0.4	0.6	0.7	0.6	2.6
Total Changes	9.1	15.7	22.4	28.6	34.5	110.3
Administration's 1988 Budget as Reestimated by CBO	311.8	332.0	353.0	374.4	396.2	1,767.3
Outlays						
CBO Baseline	290.5	303.4	317.1	332.2	346.9	1,590.1
Proposed Changes						
Military personnel	1.2	1.6	3.2	3.8	4.1	14.0
Operation & maintenance	2.3	3.9	7.5	10.5	13.0	37.1
Procurement	-0.3	-1.5	1.1	5.0	9.9	14.2
RDT&E ^{a/}	3.5	5.1	2.0	-1.0	-1.5	8.1
Military construction	0.2	0.7	1.2	1.5	1.8	5.4
Other-DoD	0.8	-0.6	-1.3	-2.6	-4.5	-8.2
Subtotal	7.7	9.2	13.8	17.2	22.8	70.7
Other Defense	0.1	^{b/}	0.2	0.3	0.2	0.9
Total Changes	7.8	9.2	14.0	17.5	23.1	71.6
Administration's 1988 Budget as Reestimated by CBO	298.3	312.6	331.1	349.8	369.9	1,661.7

SOURCE: Congressional Budget Office.

a. Research, development, test, and evaluation.

b. Less than \$50 million.

various defense budget accounts. For example, the \$4.7 billion decrease in procurement budget authority in 1988 results in only a \$0.3 billion decline in outlays in 1988, while effecting a \$1.5 billion decline in 1989 despite a budget authority increase that year. In contrast, the budget authority increases in O&M and RDT&E in 1988 raise outlays immediately.

The significance of the compositional shift noted above can be seen most clearly when outlays are considered and when the CBO baseline is used as a reference. The baseline represents a no-real-growth projection in which the composition of the defense budget is held constant according to the 1987 distribution of budget authority; that is, no defense budget account changes in real terms. Differences between the request and the baseline represent changes in real terms both in total budget authority and in budget composition (see Table IV-2).

The Administration has claimed that recent budget resolutions have not recognized the appropriate mix of operating and investment resources so that there has been a mismatch between budget authority and outlays--specifically, that outlays in the resolution were too low relative to the budget authority. Like last year, the Administration proposes a budget with increases in the fast spending accounts so the perceived mismatch could occur again. As an illustration, in 1988, the \$9.1 billion increase in budget authority from the CBO baseline would necessitate a \$7.3 billion increase in outlays for a marginal outlay rate of 80 percent (the supplemental request for 1987 raises 1988 outlays by \$0.6 billion--see Box IV-2). In contrast, an across-the-board increase would have a marginal outlay rate of 58 percent; an increase in nonpay defense budget authority would have a 38 percent rate; and, increases in the slowest spending account--weapons procurement--would have a 13 percent rate.

Ultimately, of course, whether there is a mismatch or not is a policy choice over how funding should be allocated in the face of programmatic and deficit pressures. In establishing the defense outlay targets in the Congressional budget resolutions, the Budget Committees must consider not only the total level of defense resources but also their distribution among the different components of the defense budget--and, implicitly the marginal outlay rate.

MAJOR DEFENSE PROPOSALS

The defense budget serves the national security objectives of the United States by supporting a variety of land, air, and naval forces. Under the

Administration's budget, most major force categories would increase in 1988 and 1989 as shown in Table IV-3. In addition to greater numbers, forces would be modernized; for example, M-60 tanks now in the Army's inventory would be replaced with new M-1 tanks. Also, increases in manpower might make some units more effective even though the number of units was unchanged.

Spending for military personnel and O&M fund the operations and readiness of currently deployed forces. Military personnel pays for those

BOX IV-2
THE ADMINISTRATION'S REQUEST FOR SUPPLEMENTAL
1987 APPROPRIATIONS FOR DEFENSE

The Administration has requested supplemental appropriations totaling about \$3.4 billion for 1987. The supplemental has two basic parts--the common pay and program supplemental and one for the costs of Federal Employees' Retirement Act of 1986. Together these supplementals result in additional outlays of \$1.7 billion in 1987 and \$0.6 billion in 1988.

The table below shows the composition of the basic supplemental request. The \$500 million requested for research, development, test and evaluation for the Strategic Defense Initiative is the largest single item in the request. Another \$500 million would be spent on dismantling aging chemical weapons, \$250 million for procurement, and \$250 million for military construction. Additional funds are sought to fund fully the military pay raise mandated for fiscal year 1987. This raise was not fully funded in the fiscal year 1988 appropriation bill, thus requiring reductions in other areas. Operations and Maintenance funds would be used to fund, in part, the CHAMPUS health-care program and to increase the flying hours, steaming hours, and spare parts necessary for global training exercises.

1987 Supplemental Request
(In millions of dollars)

Military Personnel	443
Operations and Maintenance	603
Procurement	804
Research and Development	694
Military Construction	<u>250</u>
 Total Budget Authority	 2,794

The Administration also requests about \$565 million to fund the 1987 costs of recent legislation raising the government's contributions to federal civilian retirement. Together with the program supplemental described above, this brings the Administration's supplemental request to about \$3,359 million.

TABLE IV-3. SUMMARY OF ACTIVE FORCES (By fiscal year, in numbers)

Active Forces	1986	Projected		
	Actual	1987	1988	1989
Strategic Forces				
Land-based ICBMs	1,007	1,000	1,000	1,000
Strategic bombers	259	292	324	324
Sea-launched missiles	464	528	560	592
Strategic interceptors	76	54	36	36
General Purpose Forces				
Army divisions	18	18	18	18
Marine Corps divisions	3	3	3	3
Air Force tactical aircraft	1,764	1,812	1,762	1,774
Navy tactical aircraft	758	752	758	758
Marine Corps tactical aircraft	333	331	346	351
Naval Forces				
Aircraft carriers	13	14	14	14
Battleships	3	3	3	4
Nuclear attack submarines	97	97	99	101
Other warships	211	214	214	218
Amphibious assault ships	60	61	62	65
Airlift and Sealift Forces				
C-5 aircraft	71	80	98	110
Other Air Force aircraft	786	850	812	804
Navy and Marine Corps tactical support ships	88	88	92	92
	64	61	61	61

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

NOTE: Aircraft are in terms of primary authorized aircraft.

people on active and reserve duty, and O&M finances a wide range of logistical and personnel support functions. The procurement accounts contribute to force operations and readiness with funds for spare parts.

The force growth projected for 1988 results from past decisions to procure ships, aircraft, and vehicles. The improvements in quality of weapons stems from past decisions to pursue technological initiatives with RDT&E funding.

Table IV-4 illustrates the pattern of real growth over the projection period in the appropriation categories used by the Congress. The table shows that growth in military personnel and operation and maintenance--the so-called readiness accounts--is fairly steady, but there is more variation in the other accounts. Procurement funding would be depressed in 1988, but grow thereafter while RDT&E, military construction, and family housing follow an opposite pattern--rapid growth followed by more moderate growth and, in the case of RDT&E, real decline. The following sections of this chapter discuss these changes in more detail.

Military Personnel

Military personnel appropriations fund the pay and allowances of members of the active and reserve forces. The Administration has requested \$2.5 billion more in 1988 than was appropriated for these accounts in 1987 and \$1.3 billion more than the CBO baseline--for a total of \$76.3 billion. This amount does not include the cost of the Administration's proposed 4 percent pay raise--about \$2 billion. Also, the request does not include cuts in officer strength required by the Defense Authorization Act for 1987, 1988, and 1989.

Table IV-5 shows that strength levels for active units would fall by 2,000 people in 1988 though reserve-unit strengths would rise. This would be the first overall active strength reduction since 1979 and results from a decrease in Air Force personnel. The reduction of 8,150 in the Air Force is the net result of reducing the training pipeline, tactical air forces mobility forces, and support activities by 12,100 people and of increasing personnel allotted to the B-1, special operations forces, ground launched cruise missiles, and medical programs by 3,950.

The Navy and Army have requested overall increases for a variety of programs. The Navy wants to enlarge active strength by 6,200 to support the growth in the active fleet from 569 ships in 1987 to 582 ships in 1988.

The major part of this growth would be used to man new ships and aircraft squadrons and to meet other fleet requirements, such as maintenance activities, undersea surveillance, ordnance disposal, and special warfare. The Army's personnel strength shows a very small increase, and the Marine Corps strength request maintains 1987 levels.

TABLE IV-4. REAL PERCENT CHANGES IN DEFENSE BUDGET AUTHORITY, BY APPROPRIATION CATEGORIES
(By fiscal year, in percents)

Category	Actual 1980-1986 Average	Projected			Projected 1989-1992 Average
		1987	1988	1989	
Department of Defense					
Military Personnel	2	1	2	1	1
Operation and Maintenance <u>a/</u>	5	1	4	2	3
Procurement	11	-7	-5	8	5
RDT&E <u>b/</u>	11	4	17	-3	-5
Military Construction	10	-8	26	1	4
Family Housing	6	9	8	2	1
Other-DoD	<u>11</u>	<u>c/</u>	<u>c/</u>	<u>c/</u>	<u>c/</u>
Subtotal-DoD	7	-2	3	2	2
Other Defense	<u>11</u>	<u>d/</u>	<u>5</u>	<u>d/</u>	<u>d/</u>
Total, National Defense	7	-2	3	2	2

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

- a. This table does not reflect the fact that in 1987, the DoD expects to transfer about \$5 billion out of other accounts into operation and maintenance. If the transfers take place, real growth in O&M will be higher in 1987 and lower in 1988 than shown here; but these changes to O&M would be offset by changes elsewhere in the budget.
- b. Research, development, test, and evaluation.
- c. Because this category includes offsetting receipts and other miscellaneous accounts, real growth in percentage terms is misleading.
- d. Less than 0.5 percent.

The Defense Authorization Act for 1987 requires that active officer end strengths be reduced by 6 percent by 1989--1 percent in 1987, 2 percent in 1988, and 3 percent in 1989--to achieve a ratio of 6.4 enlisted personnel to each officer. Since no reductions were made in active officer personnel for 1987, and none is included in the 1988 budget request, the ratio remains at 5.9 enlisted personnel per officer. Meeting the reductions stipulated by law would save about \$280 million from the 1988 request.

The 1988 request would raise the reserve component end strength by 32,964--a 4,750 increase in full-time and a 28,214 increase in part-time personnel. While this is an overall increase of 2.8 percent, it is proportionally larger among full-time personnel--6.9 percent compared with 2.6

TABLE IV-5. REQUESTED STRENGTH LEVELS FOR MILITARY PERSONNEL (By fiscal year)

Service	1988 Request (Thousands of people at year end)	Percent Change Between Years		
		1986-1987	1987-1988	1988-1989
Active				
Army	781	<u>a/</u>	<u>a/</u>	<u>a/</u>
Navy	593	2.9	1.1	1.6
Marine Corps	200	0.8	0.0	0.3
Air Force	<u>599</u>	<u>-0.2</u>	<u>-1.3</u>	<u>0.3</u>
Subtotal	2,173	0.8	-0.1	0.6
Reserves				
Full-time	74	8.6	6.9	6.2
Part-time	<u>1,117</u>	<u>2.0</u>	<u>2.6</u>	<u>1.7</u>
Subtotal	1,190	2.4	2.8	1.9
Total	3,363	1.3	0.9	1.0

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

a. Less than 0.5 percent.

part-time reserves. Most of the growth in full-time reservists--the more costly soldiers--would occur in the Army and Marine Corps reserves, both at 15 percent. The Army Reserve justifies this growth in terms of improved unit and individual training, mobilization capability, unit retention, and unit administration. The Marine Corps increase would support two light armored vehicle companies, a target acquisition battery, a helicopter squadron, and other functions.

The proposed \$2.5 billion increase in military personnel appropriations over 1987 has many components, the largest of which are related to personnel strength changes. The strength changes proposed for 1988 would cost \$110 million--\$165 million in additional costs for reserve forces and \$53 million in savings for active forces. Annualization of last year's growth in strength would add about \$440 million while another \$300 million of the increase would come from other strength-related sources, such as growth in grade.

Other funding increases include \$504 million for the annualization of the 1987 pay raise, \$391 million in the payment of social security wage credits, \$262 million in increases for active enlistment and reenlistment bonuses, \$81 million for permanent change of station (PCS), and \$80 million for cost growth in variable housing allowances. Also the request includes a reduction of \$84 million for educational benefits (G.I. Bill). The administration will submit legislation to continue the G.I. Bill, but will also introduce legislation to reduce benefit levels.

Operation and Maintenance

The operation and maintenance (O&M) account funds a wide range of activities--some directly related to force operations, such as training exercises, weapons maintenance, supplies, and other general logistical support. O&M also funds personnel support activities--such as training of individual members (apart from training in units), medical care, and military base or community services--which are only indirectly related to force readiness. Overall, new budget authority would grow by about 4 percent in real terms in 1988. As shown in Table IV-6, not all O&M programs share in the real growth--three major force programs and administration decline while central supply and maintenance grows by 14 percent.

The Administration's O&M budget shows real decline in funds for strategic forces, general purpose forces, and airlift/sealift--the program for moving forces over long distances. Navy funding in the three major force programs declines by \$1.7 billion, or 12 percent, in real terms despite the

movement toward the Navy's goal of 600 ships. It is unclear at this time what efficiencies or program reductions might account for this decline except that about \$700 million of it can be attributed to reduced depot maintenance--extensive and relatively infrequent overhauls that are not indicative of short-term force support. The Air Force shows real increases in the

TABLE IV-6. REAL CHANGES IN OPERATION AND MAINTENANCE
(By fiscal year, in billions of dollars and percents)

Activity	1988 Request (Dollars)	Real Changes ^{a/}			
		1986-87 (Percent)	1987-1988 Percent	1988-89 Dollars (Percent)	
Strategic Forces	5.0	-3	-2	-0.1	5
General Purposes					
Forces	25.5	2	-1	-0.4	3
Intelligence and					
Communications	8.5	7	2	0.2	2
Airlift and Sealift	1.6	-8	-12	-0.2	5
Reserve Forces	6.8	5	4	0.3	4
Central Supply and					
Maintenance	21.2	-4	14	2.6	-2
Training, Medical					
and Other	13.8	4	7	0.9	3
Administration					
and Associated	3.4	9	-2	-0.1	1
Support of					
Other Nations	0.2	25	5	b/	3
Total	86.1	1	4	3.3	2

SOURCE: Compiled by Congressional Budget Office based on data supplied by the Department of Defense.

- a. This table does not reflect the fact that in 1987, the DoD expects to transfer about \$5 billion out of other accounts into operation and maintenance. If the transfers take place, real growth in O&M will be higher in 1987 and lower in 1988 than shown here; but these changes to O&M would be offset by changes elsewhere in the budget.
- b. Less than \$50 million.

force programs consistent with its force growth and other programmatic increases. Army and Marine Corps funding are more difficult to summarize in relation to forces because force measurement is so highly aggregated, but Army funding in the three major program areas--strategic, general purpose, and airlift/sealift--declines slightly, while Marine Corps funding rises slightly, in real terms.

The largest growth in O&M budget authority is in central supply and maintenance activities, but the actual program may not be much larger in 1988 than 1987. In 1987, this O&M program received not only new budget authority but also access to about \$5 billion in unobligated balances--particularly from stock and industrial funds--whose availability primarily affects this activity. This, focusing just on budget authority understates real growth in 1987 and overstates real growth in 1988.

The growth in the other O&M activities is spread across a broad range of programs. Training of individual servicemen--in contrast with training exercises for units--receives greater funding in 1988 for specialized skills, flight training, and other training for members, but funding also increases for dependent schools. Medical funding increases for many reasons, including a program to increase the capacity and capability to deliver health care by contracting for personal services.

Procurement

The procurement account funds the purchase of weapons and other equipment. The weapons purchased in this account include new ships, aircraft, missiles, and combat vehicles like tanks. The procurement account also funds major modification or weapons improvement programs as well as spare and repair parts. Other purchases include trucks, bridging equipment, radios, and satellites. As shown in Table IV-4, the procurement accounts are the only major funding category for which the 1988 budget request contains a real decline in budget authority--about 5 percent. The Administration's procurement request for 1988 implies three successive years of real decline after growing at a 15 percent average annual rate in the preceding five years. (The Congressional appropriations for 1986 and 1987 represented real declines in procurement funding.) In 1989, the proposal would resume real growth in all categories of procurement (see table IV-7).

For many weapons, the Administration proposes buying fewer weapons in 1988 than in 1987. Such slowdowns can portend either program terminations--such as the Army's Apache attack helicopter--or stretch-outs by

TABLE IV-7. REAL CHANGES IN PROCUREMENT BUDGET
AUTHORITY (By fiscal year, in billions of dollars
of budget authority and percents)

Activity	1988 Request (Dollars)	1986-87 (Percent)	Real Changes <u>a/</u>		1988-89 (Percent)
			1987-1988 Percent	Dollars	
Support and Other					
Equipment <u>b/</u>	20.5	5	-9	-2.0	17
Aircraft	14.0	-31	-10	-1.6	1
Shipbuilding and					
Conversion	11.1	3	4	0.4	3
Other Missiles,					
Torpedoes, and					
Weapons	9.6	-10	13	1.1	11
Communications and					
Electronic Equipment	8.0	4	<u>c/</u>	<u>d/</u>	13
Spares and Repair					
Parts	5.9	-9	-6	-0.4	<u>c/</u>
Vehicles, All					
Types <u>e/</u>	4.4	-11	-15	-0.8	3
Modifications	3.5	-3	-37	-2.1	18
Ammunition, Munitions,					
and Related					
Equipment	3.3	-6	-16	-0.6	5
Ballistic Missiles	<u>3.6</u>	<u>47</u>	<u>38</u>	<u>1.0</u>	<u>2</u>
Total	84.0	-7	-5	-4.8	8

SOURCE: Compiled by Congressional Budget Office from data supplied by the Department of Defense.

- a. Real growth computed using CBO's economic assumptions and the President's pay-raise assumptions.
- b. Includes Defense Agency purchases of National Guard and Reserve equipment in 1986 and 1987.
- c. Less than 0.5 percent.
- d. Less than \$50 million.
- e. Includes Army weapons and tracked combat vehicles, but excludes all Navy, and Defense Agency purchases of National Guard, and Reserve vehicles, which are included in Support and Other Equipment.

which the same total quantity of a weapon is purchased over a longer period of time--for example, the AV-8B aircraft. Production slowdowns add to unit costs as fixed costs are spread over fewer systems and economies of large-scale production go unrealized. CBO is currently assessing the effects of stretch-outs on weapons costs, but preliminary results suggest that effects vary widely, with costs of some systems appearing to be relatively insensitive to production rates, while others show significant savings when produced at higher rates. The following discussions of aircraft, missile, and vehicle procurement highlight some of the wide variations in unit costs that can be attributable to some combination of production slowdowns and other program changes--for example, procurement of an improved weapon.

Support Equipment. The largest single activity within the defense procurement accounts for 1988 is support and other equipment. Its large absolute and relative size stems from the fact that "other equipment" is itself a large category and that all major weapons systems require general and sometimes specialized equipment for maintenance and test purposes. (CBO has included Defense Agency purchases of National Guard and Reserve equipment in this category. These purchases include everything from photographic equipment and vehicles to training devices, missiles, and aircraft. Budget details were not available to permit a breakout of the data.) While not a part of actual weapons systems, support equipment is an important part of all weapons programs. In real terms, this category was one of four having real growth in 1987, but in 1988, it will decline by 9 percent before rising by 17 percent in 1989.

Aircraft. Aircraft procurement--the second largest category in procurement--would decline for three consecutive years as the total number of aircraft purchased declined from 939 in 1986 to 765 in 1987, to 652 in 1988, and to 603 in 1989. The overall decline in funding can be traced to the conclusion of one program--the C-5B transport which received \$1.9 billion for procurement of 21 aircraft in 1987, but would receive nothing in 1988. Similarly, KC-10 tanker procurement would end with the eight procured for \$87 million in 1987. Except for new programs, only two weapons systems--the SH-60F helicopter and the A-6E/F aircraft--are requested in greater quantity in 1988 than 1987. As shown in Table IV-8, seven of the remaining fourteen systems have quantities reduced by 20 percent to 65 percent; in all but one of these cases unit costs rise significantly. Whether or how much of the unit cost increases stem from slowed production is unclear; of six systems with no quantity change, unit costs are increased for three systems and decreased for the other three. For at least two aircraft--the A-6 attack aircraft and the F-14 fighter--newer models would be purchased in 1988; such changes in quality or capability may be the source of some increases in unit cost.

TABLE IV-8. SELECTED PROGRAM CHANGES IN THE 1988 REQUEST FOR AIRCRAFT PROCUREMENT (By fiscal year, in millions of dollars of budget authority and percents)

Weapon	1988 Request		Percent Changes from 1987	
	Quantity	Dollars	Quantity	Unit Cost
Increases				
SH-60F Helicopter	18	330	157	-21
A-6E/F Aircraft	12	853	9	110
Decreases				
EA-6B Aircraft	6	357	-50	61
F-14A/D Aircraft	12	829	-20	56
E-2C Aircraft	6	427	-40	45
SH-60B Helicopter	6	144	-65	36
AV-8B Aircraft	32	700	-24	24
UH-60 Helicopter	61	480	-26	21
AH-64 Helicopter	67	746	-34	-5
No Changes				
F-15 Aircraft	42	1,655	<u>a</u> /	-8
E-6A Aircraft	3	347	<u>a</u> /	-8
Civil Air Patrol Aircraft	38	1	<u>a</u> /	-64
MC-130H Aircraft	7	403	<u>a</u> /	24
CH/MH-53E Helicopter	14	255	<u>a</u> /	16
F/A-18 Aircraft	84	2,580	<u>a</u> /	1
F-16 Aircraft	180	2,885	<u>a</u> /	<u>a</u> /

SOURCE: Compiled by Congressional Budget Office from data supplied by the Department of Defense.

a. No change.